

Message Text

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PAGE 01 BRIDGE 01653 162210Z

ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

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SUBJECT: ROLE OF CARIBBEAN DEVELOPMENT BANK

1. SUMMARY: US DELEGATES TO MEETING OF CARIBBEAN GROUP FOR CO-OPERATION IN ECONOMIC DEVELOPMENT WHICH BEGINS JUNE 19 AT WORLD BANK IN WASHINGTON SHOULD BE FOREWARNED THAT CONSENSUS IS NOTABLY LACKING AMONG ISLANDS OF EASTERN CARIBBEAN REGARDING EFFECTIVENESS OF CARIBBEAN DEVELOPMENT BANK (CDB). BARBADOS AND RELATIVELY MORE DEVELOPED ISLANDS OF WEST INDIES ASSOCIATED STATES--NAMELY, ANTIGUA, ST. LUCIA, AND ST. KITTS/NEVIS--SEEM ABLE MEET BANK'S TECHNICAL REQUIREMENTS FOR PROJECT PREPARATION AND IMPLEMENTATION TO MUCH GREATER EXTENT THAN GRENADA, DOMINICA, AND ST. VINCENT. THEY THEREFORE TEND TO LAUD CDB'S CORRECTNESS, "HIGH-QUALITY" PORTFOLIO, AND PROSPECTS FOR REPLENISHMENT. ON OTHER HAND, GRENADA, DOMINICA, AND ST. VINCENT AS WEAKER SISTERS SEEM ALMOST FRANTIC ABOUT THEIR ALLEGED INABILITY GET A SERIOUS HEARING ABOUT THEIR DIFFICULTIES WITH CDB. THEY CLAIM THEY CANNOT GET LOANS IN QUANTITY NEEDED BECAUSE THEY CANNOT COMPLY RAPIDLY ENOUGH WITH TECHNICAL DEMANDS FOR FEASIBLE STUDIES AND PROJECT PREPARATION. US DELEGATION SHOULD PROBABLY ACKNOWLEDGE THEIR FRUSTRATION.

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PAGE 02 BRIDGE 01653 162210Z

TION AND PROVIDE SOME WORD OF ENCOURAGEMENT WITHOUT PREJUDICE TO REAL FACTS, WHICH ARE THAT MUCH OF PROBLEM IS SELF-CAUSED. END SUMMARY.

2. DOMINICAN OFFICIALS ASSERT THEY WERE ABLE TO BUILD PORT FACILITIES ONLY HALF THE SIZE NEEDED BECAUSE DELAYS IN DISBURSEMENT OCCASIONED BY CDB'S CONDITIONS PRECEDENT

WIPED OUT HALF THE VALUE OF LOAN BY INFLATION. ST. VINCENT ALLEGEDLY WAITED OVER 5 YEARS FOR SUGAR FACTORY, WHICH WAS EVENTUALLY FINANCED BY TRINIDAD, NOT CDB. GRENADA HAS ALLEGEDLY FOUND IT IMPOSSIBLE TO GET LOANS THROUGH FOR FEEDER ROADS AND OTHER INFRASTRUCTURAL PROJECTS ESSENTIAL TO ATTRACT MORE PRIVATE FOREIGN INVESTMENT AND TO PROMOTE THE DEVELOPMENT OF OTHER PROGRAMS WHICH MEET BASIC HUMAN NEEDS.

3. WE REALIZE THAT US CONGRESS UNLIKELY TO BE IMPRESSED WITH ANYTHING LESS THAN PRINCIPLE OF STRICT ACCOUNTABILITY IN CDB'S ON-LENDING. US GOVERNMENT SHOULD NOT COUNTENANCE SLOPPY BANKING PRACTICES OR SUBSIDIZE COST OVER-RUNS CAUSED BY INCOMPETENCE IN GRENADA, DOMINICA, AND ST. VINCENT. NONETHELESS, WE MUST ALSO FACE FACT THAT PROSPECT OF SOCIAL INSTABILITY IS GREATEST ON THOSE VERY ISLANDS. THESE THREE WEAKEST SISTERS LACK POLITICAL MUSCLE TO MOBILIZE SUPPORT WITHIN CDB'S BOARD OF GOVERNORS OR BOARD OF DIRECTORS FOR CHANGING BANKING PROCEDURES WHICH THEY CONSIDER (PROBABLY WRONGLY) TOO RIGID AND WHICH THEY THINK ARE OBSTRUCTING DEVELOPMENT. THEIR EXAMPLES OF RIGIDITY ARE PROBABLY TENDENTIOUS. VINCENTIAN OFFICIALS LIKE TO SAY THAT IN AN ACUTE CAPITAL SHORTAGE, LOCAL MANAGER FOR A CDB-FINANCED PROJECT CANNOT FIND MONEY TO PRESENT RECEIPTS FOR MATERIAL LIMITED OFFICIAL USE

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PAGE 03 BRIDGE 01653 162210Z

ALS ALREADY PURCHASED, TO DRAW DOWN FIRST TRANCHE OF A LOAN. SINILARLY, LOCAL CONTRACTORS ARE UNABLE FINANCE THEMSELVES IN EARLY STAGES OF A JOB AND THEREFORE CANNOT MOBILIZE WHILE AWAITING CDB DISBURSEMENTS. MEMBERS OF DOMINICA'S PRIVATE SECTOR, SOME OF WHOM ARE RESPECTABLE, ALSO BRIDLE AT CDB'S DEMAND FOR STUDIES BY OUTSIDE CONSULTANTS, WHOSE SALARIES DOMINICA MUST PAY AND WHO ALLEGEDLY TAKE FOREVER TO COMPLETE A STUDY. THESE PRIVATE DOMINICANS SAY THEY WOULD VOLUNTEER THEIR OWN SERVICES TO CONDUCT FEASIBILITY STUDIES TO AVOID EXPENSE AND, EVEN MORE, TO REDUCE DELAY.

4. WE ARE NOT SUGGESTING THAT AID OR OTHER DONORS SHOULD REDUCE THEIR LENDING STANDARDS, BUT EMBASSY HAS HEARD ENOUGH OF THIS CRI DE COEUR FROM GRENADA, DOMINICA, AND ST. VINCENT TO BELIEVE IT IS PARTLY GENUINE. WE ACKNOWLEDGE IMPERFECTIONS, LASSITUDE AND EVEN CORRUPTION OF ISLAND BUREAUCRACIES. IN LOCAL CULTURAL CONTEXT, HOWEVER, EACH ISLAND STRONGLY FEELS CDB UNFAIRLY EXPECTS IT TO DO THE HERCULEAN. EACH ALSO HAS SOME SURPRISINGLY GOOD PEOPLE HIGHLY MOTIVATED TOWARDS DEVELOPMENT. IF WE ARE TO ENLIST AND KEEP ATTENTION OF LATTER FOR CARIBBEAN GROUP, EMBASSY

RECOMMENDS SOME LIBERALITY OF UNDERSTANDING IN
DEALING WITH LESS IMPRESSIVE ISLANDS AT JUNE 19
MEETING. WE MIGHT AT LEAST MENTION SERIOUS DISTINC-
TIONS IN ECONOMIC SITUATIONS AMONG DIFFERENT ISLANDS
AND SUGGEST THAT CDB NOT ADD TO NECESSARILY RESTRICTIVE
CRITERIA ALREADY LAID DOWN BY DONORS. IN OUR OPINION, THIS
STATEMENT WOULD GO FAR TOWARD REASSURING GRENADA, DOMINICA,
AND ST. VINCENT.
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